



December 19, 2011

Ex Parte Notice

Ms. Marlene H. Dortch, Secretary
Federal Communications Commission
445 12th Street, S.W.
Washington, D.C. 20554

Connect America Fund, WC Docket No. 10-90; A National Broadband Plan for Our Future, GN Docket No. 09-51; Establishing Just and Reasonable Rates for Local Exchange Carriers, WC Docket No. 07-135; High-Cost Universal Service Support, WC Docket No. 05-337; Universal Contribution Methodology, WC Docket No. 06-122; Federal-State Joint Board on Universal Service, CC Docket No. 96-45

Dear Ms. Dortch:

On Thursday, December 15, 2011, Jill Canfield and the undersigned on behalf of the National Telecommunications Cooperative Association (“NTCA”) met to discuss matters in the above-referenced proceedings with Trent Harkrader, Vickie Robinson, Carol Pompio, Ernesto Beckford, Claudia Fox (via telephone), and Chin Yoo of the Telecommunications Access Policy Division of the Wireline Competition Bureau.

In our meeting, NTCA delivered the attached presentation regarding the dire need for reform of the universal service fund (“USF”) contributions mechanism. We noted the importance of achieving the “art of the possible” with respect to reform, rather than pursuing grand designs or novel schemes that would create entirely new loopholes or perpetuate the delay and uncertainty in contributions reform that threatens to undermine the entire USF. For these reasons, NTCA urged the Federal Communications Commission (the “Commission”) to broaden the USF contribution base by including additional service revenues such as those described further in the attached presentation. Building upon and firming up the existing revenues-based system – rather than creating a new contribution system (and entirely new loopholes) from whole cloth – would better position the Commission to achieve important and evolving USF objectives.

NTCA further explained that the statutory principles of sufficiency and predictability cannot be served by the current course. Although there is of course a need to consider both long-term sustainability and the “job to be done” in assessing program design, it is clear in recent years that the “budget” has become the primary (if not sole) driver in determining how to reform USF. Achieving contributions reform would help re-establish a more appropriate balance in policymaking with respect to USF, hopefully ensuring that the “job to be done” is no longer lost, subordinated, or

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minimized in program design. A sensible and well-designed USF program can only be achieved through sensible and targeted reforms on both the contribution and distribution sides of the ledger. Pursuant to Section 1.1206 of the Commission's rules, a copy of this letter is being filed via ECFS with your office. The materials provided to staff during the second meeting referenced in this letter are provided herewith. If you have any questions, please do not hesitate to contact me at (703) 351-2016 or mromano@ntca.org.

Sincerely,

/s/ Michael R. Romano
Michael R. Romano

Senior Vice President - Policy

Enclosure

cc: Trent Harkrader
Vickie Robinson
Carol Pompio
Ernesto Beckford
Claudia Fox
Chin Yoo



USF Contribution Supply and Demand: *Fiction and Facts*

December 2011

USF Contribution % Continues to Rise

- This is an issue that warrants a meaningful solution.
- But it's important too to keep this in perspective and solve the right problems.
 - The Contribution Factor is largely applied to interstate and international long distance service charges – only a few \$ per month for most consumers.
- Meaningful solutions must address Supply & Demand:
 - Reasonable Ways to Improve the Contribution Mechanisms
 - Broaden the Base
 - Target those Issues that are Placing Pressure on the USF
 - Look Closely at where Growth Has and Will Come From

How Did This Happen?

Supply Fiction and Facts

- Fiction: *The Contribution Factor is rising simply because the total size of the USF has increased.*
- Fact: The Contribution Base is declining and things will get much worse absent Contribution reform.
 - Over the past 2 years, assessable Telecommunications Revenues declined by \$2 Billion.
 - Continuing to stake USF Supply to a declining Contribution Base jeopardizes all aspects of Universal Service.
 - It also implicates the principles of sufficiency and predictability
 - Under such circumstances, policy decisions are made based not on the “job to be done” but rather on “what squeezes into the budget?”
 - **The USF is being starved.**

How Did This Happen?

Demand Fiction and Facts

- Fiction: *The Contribution Factor is rising because of “waste, fraud, and abuse” by allegedly inefficient recipients of high-cost support.*
- Fact: Frequent audits of Rural ILECs confirm that waste, fraud, or abuse is not a concern.
- Fact: Rural ILEC demand on and use of USF has been relatively stable and very efficient.
 - Rural ILECs’ total draw on USF increased by only 3% CAGR between 2006 and 2010.*
 - Meanwhile, from 2000 to 2010, rural ILEC broadband penetration (DSL or above) increased from a small percentage to over 92%, with adoption averaging 51%.*

How Did This Happen?

Demand Fiction and Facts (cont.)

- Fiction: *Even if it's not due to inefficiency or abuse, the increase in the Contribution Factor must be due to ever-increasing demand for high-cost USF support.*
- Fact: Over the course of 2011 –
 - High-Cost Support declined slightly (-\$9M).
 - \$1.122B in 1Q 2011 to expected \$1.113B in 4Q 2011.
 - Rural Health Care Support declined slightly (-\$2M).
 - \$24M in 1Q 2011 to expected \$22M in 4Q 2011.
 - Schools and Libraries Support was flat (at \$559M per Q).
 - Low-Income Support increased by 41% (+\$154M).
 - \$373M in 1Q 2011 to expected \$527M in 4Q 2011.

How Did This Happen?

Demand Fiction and Facts (cont.)

- Facts: From 2005 to 2010 –
 - Low-Income Support increased by 116% (+\$709M)
 - From \$607M to \$1.316B
 - On \$2B+ run-rate now and where does it stop?
 - CETCs received 8.45% of Low-Income Support in 2005, and 54.65% of Low-Income Support in 2010
 - CETCs have received more than 2/3 of Low-Income Support so far in 2011
 - Are we seeing a new run on USF, much like “Identical Support”?
- It is far past time to ask – where are controls on growth/demand really needed?

Fixing USF Supply

- Focusing on the Facts Shows That:
 - The shrinking Contribution Base must be fixed or all of Universal Service is at risk.
 - The FCC can dramatically improve the Supply equation by expanding the Contribution Base:
 - Fixed & Mobile Retail Broadband Internet Access Revenues – Est. \$39B Market in 2010; projected to be \$49B in 2012.*
 - Texting Revenues – Est. \$20B Billion Market*
 - Non-Interconnected (1-way) VoIP Service Revenues
 - Will still need to consider separately how to ensure that web-based enterprises that place substantial burdens on networks contribute directly or indirectly to USF and help sustain those networks.

Fixing USF Supply (cont.)

- The FCC Has Ample Authority and Good Policy Reasons to Expand the Contribution Base:
 - Section 254(d) permits assessment on any provider of interstate telecommunications.
 - Broadband should support USF as it will be enabled by USF.
 - Adding \$49 Billion in Broadband Revenues to the Contribution Base would enable substantial reductions in the Contribution Factor, equitably distribute the responsibility of supporting universal service, and enable reasonable growth to “do the job” of Universal Service.
 - Non-interconnected VoIP and Texting cannot function without supported networks, and should thus contribute.
 - 2-Way VoIP contributes today – it makes no sense that these other communications streams do not.
 - VoIP and texting are increasingly substitutes for traditional voice services.
 - At least another \$20B+ in the Contribution Base
 - If Estimated Broadband and Texting Revenues Had Been in the Contribution Base in 4Q2011, Contribution Factor Could Have Been Cut in Half (7.7% Rather than 15.3%).

Fixing USF Demand

- Focusing on the Facts Shows That:
 - Look where pressure on the USF has really come from, rather than responding or resorting to rhetoric.
 - The FCC can address issues in the Demand equation by being prudent in near-term reform:
 - Get exploding growth under control where it really is occurring.
 - Consider whether rapid increases are justified, and what measures are required to address that growth. *See, e.g.,* GAO Report 11-11.



Conclusion

- It is Essential to Focus on Facts and not Fiction in Addressing Contribution Reform.
- The FCC Should Identify and Remedy Existing Pressures on the USF, rather than Creating New Pressures or Allowing Existing Pressures to Fester.
- Policy-makers Should Make Fixes Based Upon the Facts:
 - Achieve the Art of the Possible Rather than Delaying Solutions
 - Expand the Contribution Base
 - Move Past the Rhetoric and Constrain Growth Where Growth is Really Occurring